



Understanding the K-12 General Education Funding Program 2002-03

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Introduction

The general education program is the method by which school districts receive the majority of their financial support. Two goals of the general education program are to provide adequate funding for the operation of the basic education program and to equalize differences in ability to raise revenue because of differences in property wealth between school districts. The general education program is funded by a combination of state aid (from state collected taxes) and local property taxes. The general education levy was eliminated, beginning in the 2002-03 school year. As a result, the only levy in the General Education Program is operating referendum levy.

This paper provides information on the various components of the general education program for the 2002-03 school year (fiscal year 2003). The nine components of the general education program are:

1. Basic General Education Formula Revenue

The basic general education formula establishes the base level of per pupil unit funding for the 343 school districts in Minnesota. The basic general education formula allowance is a per marginal pupil unit amount. A weighting formula and a formula which helps to soften the impact of pupil losses during periods of declining enrollment are used to determine pupil units. The weighting counts kindergarten pupils as .557 pupil units; grades 1-3 as 1.115 pupil units, grades 4-6 as 1.06, and grades 7-12 as 1.3 pupil units. After the weights are applied, a marginal pupil unit calculation is performed, so that a district's current year marginal pupil count is the greater of its actual weighted pupil count or 77 percent of the current year's weighted count plus 23 percent of the prior year's weighted count.

<u>School Year</u>	<u>Formula Allowance</u>	<u>Levy</u>
1991-92	\$3,050	26.4% adjusted net tax capacity rate
1992-93	\$3,050	27.6% adjusted net tax capacity rate
1993-94	\$3,050	30.7% adjusted net tax capacity rate
1994-95	\$3,150	34.9% adjusted net tax capacity rate
1995-96	\$3,205	34.2% adjusted net tax capacity rate
1996-97	\$3,505	40.8% adjusted net tax capacity rate
1997-98	\$3,581	37.4% adjusted net tax capacity rate
1998-99	\$3,530	36.9% adjusted net tax capacity rate
1999-2000	\$3,740	36.58% adjusted net tax capacity rate
2000-01	\$3,964	35.78% adjusted net tax capacity rate
2001-02	\$4,068	32.41% adjusted net tax capacity rate
2002-03	\$4,601	00.00% adjusted net tax capacity rate

Several restrictions also apply to the basic general education revenue:

- C An amount equal to .115 times the pupil units in kindergarten through grade three times the formula allowance and .06 times the fourth through sixth grade pupil units must be used for class size reduction in grades kindergarten through grade six.
- C An amount equal to two percent of the per pupil basic formula amount (\$92.02 per pupil) must be spent for staff development. Each year, if a district's licensed teachers and school board agree via a vote, this requirement may be waived, and the revenue used for other purposes. In addition, a district in statutory operating debt is exempt from this reserve.
- C \$11 per pupil must be reserved for all-day kindergarten, class-size reduction, or reducing special education student-to-instructor ratios.

There are several components of general education revenue in addition to the basic formula allowance. These additional components recognize factors that increase the costs of operating an educational program.

2. Basic Skills Revenue

Basic skills revenue includes Compensatory, Limited English Proficiency (LEP) and LEP concentration revenues. While these revenues are combined into a single category, the funding available for Basic Skills revenue is based on existing formulas for the individual components. The components are:

- C **Compensatory revenue.** School sites where pupils eligible for free and reduced priced lunches attend receive Compensatory revenue based on the number of eligible pupils at the site. Compensatory revenue increases as the percent of free and reduced price pupils at a particular school site increases (however, the percent is capped).
- C **Limited English Proficiency.** Districts receive LEP revenue based on the cost of providing services to students with limited proficiency in English. In addition, a per pupil amount is provided to districts with concentrations of LEP students. The per pupil funding increases as the concentration increases (though the concentration percentage is capped).

All school districts will receive some portion of approximately \$301 million in basic skills revenue in 2002-03. (The \$301 million is based on approximately \$250 million in Compensatory revenue and approximately \$51 million in the LEP revenues.)

3. Sparsity Revenue

Sparsity revenue provides additional revenue for small and isolated schools. This revenue acknowledges the higher cost of necessarily small education programs. Options to increase the number of students would require students to travel an unacceptable amount of time. There are two parts to the sparsity formula, one for secondary schools and one for elementary schools. The secondary school sparsity formula takes into account a secondary school's enrollment, distance from the secondary school to the nearest secondary school and the geographic area of the secondary school attendance area.

The elementary sparsity formula provides additional funding for elementary schools that average 20 or fewer pupils per grade and that are 19 miles or more from the nearest elementary school.

Districts that are relatively small in enrollment and large in geographic area tend to have the largest sparsity allowances. 78 districts receive a total of approximately \$16 million in sparsity revenue in 2002-03.

4. Transportation Sparsity Revenue

Transportation Sparsity Revenue provides districts with additional funding based on the number of pupil units per square mile in the school district. Approximately \$57 million of transportation sparsity revenue is divided among all school districts, with revenue amounts per district ranging up to \$651 per pupil unit.

5. Operating Capital Revenue

Operating Capital Revenue replaces the capital expenditure facilities and capital expenditure equipment formulas. The operating capital formula has a component representing the former equipment formula (\$68 per pupil unit), a component representing the former facilities formula (\$100 times the district's maintenance cost index), and a component for FY 2002-03 to fund technology costs (\$5 per pupil unit). Operating capital revenue ranges from \$173 to \$222 per pupil unit per district in 2002-03 and totals \$199 million statewide.

6. Training and Experience Revenue

Training and experience revenue is based on the experience and education of a school district's faculty. Beginning in the 1998-99 school year, only teachers hired prior to 1996-97 are counted for the purposes of computing a school district's training and experience revenue. 216 school districts qualify for Training and Experience Revenue amounts ranging up to \$124 per pupil unit, for a total of \$18 million statewide.

7. Equity Revenue

Equity Revenue is intended to reduce the disparity between the highest and lowest revenue districts on a regional basis. For the purposes of equity revenue, there are two regions in the state: the seven-county metropolitan area and the balance of the state. In each region, districts are ranked according to their basic and referendum revenue. Districts below the 95th percentile of revenue in those two components are eligible for equity revenue, except districts in cities of the first class, which are automatically excluded.

A district without an excess levy referendum is eligible for \$10 per pupil. A district with an excess levy referendum is eligible for \$10 per pupil, plus an additional amount based on their percentile ranking. To determine how much extra revenue a district receives, the district's equity index is calculated by dividing the difference between the district's basic and referendum revenue by the 95th percentile of revenue of basic and referendum revenue. The result is multiplied by \$55. The product of that calculation is added to the basic \$10 to generate the district's equity revenue. Statewide, 322 districts qualify for the revenue, sharing a total of \$35 million.

8. Referendum Revenue

Referendum revenue allows districts to increase the revenue available in their general fund with the approval of the voters in the district. A referendum to increase general fund revenue may be held only on the first Tuesday following the first Monday in November (election day) except that elections may be held at a different time if (a) the district is in statutory operating debt and receives commissioner's approval or (b) the election is held by mail. A referendum election may be held in the calendar year before it is levied or one year earlier.

Referendum revenue is capped at an amount equal to the greater of 1) 18.2 percent of the basic general education formula allowance (\$837 in the 2002-03 school year); or 2) the district's 1994 referendum allowance amount times 1.162 plus the districts 2002 supplemental and transition revenues minus \$415. District referendum revenue may not exceed this amount except that if a district's referendum revenue is already above the capped amount, the district can maintain the higher level, but the amount may not be increased. In addition, if a district is eligible for sparsity revenue, it may exceed the referendum limit.

The referendum revenue formula is an "equalized" formula; that is the state pays in aid the difference between what is raised by a local levy and a guaranteed revenue amount. The first \$126 per pupil of a school district's referendum levy is equalized at \$476,000 of market value. Any amount above \$126 and below the cap (\$837 in 2002-03) is equalized at \$270,000. Districts qualifying for sparsity revenue have any amount of referendum revenue above \$126 per pupil equalized at \$270,000, regardless of the cap amount.

Equalization is used to make property tax burdens for districts with similar per pupil referendum revenues, but varying tax bases the same. The relationship of a district's market value per pupil unit to the equalizing factor (\$476,000 in the case of the first \$126 of referendum revenue) indicates how much basic referendum revenue the district will receive from property taxes. If a district's property valuation per pupil unit were \$238,000 for example (50 percent of \$476,000), the district would receive 50 percent of its revenue from its referendum levy and 50 percent from state equalization aid. If a district's market value per pupil unit is greater than \$476,000, that district will receive all of its basic revenue from the local levy. The closer a district's market value per pupil is to \$0, the higher the percentage of state aid the district receives for referendum levies below \$126 per pupil. The same district with \$238,000 per pupil in market value would levy 88.1 percent ($\$238,000 / \$270,000 = .881$) of the revenue for a referendum amount between \$126 and \$837 per pupil.

For the 2002-03 school year, 266 districts have referendum levies totaling \$230 million. In addition, most of those districts receive referendum equalization aid totaling \$67 million.

Referendum revenue was reduced by the \$415 for FY 2002-2003. This reduction was first applied to supplemental and transition revenue, with any supplemental and transition revenue exceeding \$415 being added to a district's referendum revenue.

Prior to that, referendum revenue was also reduced by the general education formula increase between 1993-94 and 1994-95 (\$100). Also, revenue in excess of \$315 per pupil unit was reduced by 25 percent of increases in training and experience revenue and compensatory revenue between 1993-94 and 1995-96. (These reductions applied first to supplemental revenue, amounts remaining after the supplemental reduction applied to referenda.) However, in a district with a low fund balance, no supplemental revenue, low adjusted net capacity and a high referendum amount, the reduction may have been less than the increase in the formula allowance.

Referendum levies must be certified on referendum market value rather than adjusted net tax capacity (ANTC). (ANTC provides tax advantages for residential and agricultural property compared to commercial and industrial property; referendum market value treats most residential and commercial property the same, with a tax advantage for agricultural property.) Districts with referendum levies calculated on ANTC may convert those levies to referendum market value over several years.